REPUBLIC OF THE PHILIPPINES

BUDGET

FOR THE FISCAL YEAR

1958

VOLUME I

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sector in the earlier years to substantial credit expansion for the private side in later years as discussed subsequently in this Message.

Under the policies I have outlined private initiative can use its ingenuity in opening new economic vistas. As development proceeds at a progressively stepped-up pace under the impetus of enlightened business leadership, Government can concurrently minimize its central financing role by reducing the large scale financing necessary to energize the initial development effort. This involves a partnership arrangement between Government and private enterprise, each with its respective and honorable role in advancing our economic welfare. Together the prodigious task we have set for ourselves of reshaping the economy of a nation can be successfully accomplished.

The Current Economic Perspective

The most noteworthy feature of the current economic scene has been our success in maintaining the stability of the peso while financing large scale national development principally through the use of the national credit. Thus, in Fiscal Year 1956 the economy absorbed some ₱272.7 million of government securities with but mild effects on price levels. Our current status reflects the wisdom of the monetary policies which underlie our economic growth.

As I have already indicated in my State of the Nation Message, we can take encouragement from the evidence that our economy is on the upswing. Most important is the fact that the economic statistics maintained by the Central Bank reveal a steady uptrend in national income. We have good grounds for our confidence that this movement will be even more pronounced in the years ahead under the investment program incorporated in this Fiscal Plan.

We can also take satisfaction from the steady recovery of the international reserve from a low of $209 million in December, 1955 to $226 million in December, 1956. Careful husbanding of foreign exchange receipts by a restrictive import policy on non-essential items has checked the earlier drain on the reserve. In the future, however, we must approach with caution any policy which would again require a significant drawing down of the dollar reserve for the purpose of liberalizing imports as a means of relieving price pressures and offsetting the greater aggregate effective demand being generated in the economy.

The rising pattern of prices during the past year reflected a healthy trend as the economy reversed the undesirable contractionary condition which prevailed during most of 1955. Price movements were occasioned by higher import prices resulting from inflation abroad, as well as by development financing. Although we had no control over the external forces, expansionary effects were safely contained within the economy and created no necessity for drawing down the international reserve.

Specifically, the limit of about 4 per cent or 5 per cent annual increase in price levels of domestically produced goods, which limit was stipulated as the maximum permissible in my Budget Message last year, has not been exceeded in the last fiscal year.

Nevertheless, during the next few years while the capacity of domestic production is being augmented, we must soberly reckon with the potential danger of inflation and be constantly ready to take vigorous counter-measures. Unfortunately, our situation is aggravated by the general inflationary trend in the world today. Dependent as we are on foreign countries for nearly all of our capital goods and much of the demand for consumer goods, we are directly affected by these current expansionary influences.

Long range price stability for the Philippines will depend on the ability of local production to meet domestic demand. This is the only way to mitigate the domestic effects of external economic fluctuations. During the next few years our situation will be helped by the receipt of goods under the reparations program and by other external assistance in the form of capital loans. Nevertheless, we must for the immediate future fundamentally rely on farsighted fiscal, monetary and economic measures.

II. THE FIVE-YEAR FISCAL PROGRAM

A Realistic Fiscal Policy for the Future

There are few decisions of more paramount importance to the future prosperity and well-being of the country over the next five years than those in the realm of fiscal-monetary policy. These decisions will in large measure decide the course and magnitude of social and economic progress. Their wisdom will determine whether it is possible to finance an expansion of agricultural and industrial production while maintaining essential social and consumption standards without inducing the inflationary spiral which could seriously impair economic progress and create social injustice.

In brief, the principal problem which will engage our financial ingenuity during the course of the next several years will be the non-inflationary financing of social and economic development. We have faced this problem squarely and realistically in the preparation of the Five-Year Fiscal Plan, and I believe the measures proposed will permit us to achieve our high goals of national advancement under conditions of monetary stability.

Our first line of defense in thwarting any danger of inflation is a careful fiscal and monetary policy which places maximum limits on public borrowing in relation to the capacity of the economy to absorb the corresponding additions to the money supply. The powers of the Central Bank to control any undesirable feature of private credit expansion are also means of cushioning inflationary pressures. Likewise, our policy of a balanced general budget and our proposal for a more positive tax program must be regarded as restraints on inflationary tendencies. Furthermore, the judicious application of exchange controls to permit adequate amounts of essential imports, through private trade channels and through NAMARCO operations, would serve as counter-measures against undue price rises in the months ahead. Finally, as an ultimate safeguard, I will not hesitate to propose legislation for vigorous price stabilization action by the Government should at any time price increases threaten to exceed tolerable limits.

As I have emphasized in previous statements, while our fiscal policies must be bold and forward-looking they must at the same time be prudent. We will not be attracted by transitory schemes with utopian appeals of prosperity through a policy of unlimited spending. Nor will we be deterred by a policy of excessive caution.

Consonant with these considerations, the following fundamental fiscal policies and principles have served as controlling guides in the preparation of the Five-Year Fiscal Plan:

1. The Government will continue to maintain a balanced budget for general operations and will make every effort to obtain revenues sufficient to meet planned obligations or reduce commitments accordingly. We will not resort to the practice in the past of deficit financing for current operations.

2. We will engage in a policy of judicious public borrowing to finance economic development without impairing monetary stability. Such borrowings will be used exclusively for income-creating or other productive capital expenditures to finance priority ranking projects directly contributing to industrial and agricultural production. We will reduce the use of the national credit as rapidly as development needs are met or as other resources become available.

3. We will test every proposed expenditure of public funds against the touchstone of the national interest. In the serious business of national development we can not afford the luxury of administrative waste or of excessive expenditures for projects of secondary or merely political importance.

4. Our tax policy will be geared to the essential financial requirements of government for general operations and development purposes. The tax structure must emphasize the progressive factor of ability to pay without impairing legitimate business incentives.

5. The public debt will not exceed a level consistent with our economic growth. We will keep amortization and interest payments against the public debt on schedule and establish the necessary sinking funds for their ultimate retirement.

6. Tariffs will be employed as a means of offering reasonable protection to domestic producers where such measures appear economically sound and in the national interest. However, we will continue to use tariffs primarily as a source of revenue. We will avoid any tendency to isolate the economy behind a formidable tariff wall.

I believe these fiscal policies are sound and can serve as the foundation for the Government's national development effort. They have been formulated in the knowledge that the manner in which the Government budgets its expenditures and raises the funds to finance them profoundly affect national income, prices, production and employment.

Improved Organization for Fiscal Management

In this connection, I should like to comment on the improved organization and facilities for fiscal management which the Administration has evolved over the past several months. Cognizant of the extreme importance of providing a top level mechanism for the coordination of all aspects of fiscal policy with economic, monetary, and credit policy, I am taking steps to establish a Fiscal Policy Council composed of the Secretary of Finance, the Governor of the Central Bank, the Chairman of the National Economic Council and the Budget Commissioner. This Council, meeting with me and serving directly as my collective advisors, will bring together the diverse and complex elements of fiscal and related policies and assure their effective coordination as instruments of national progress.

Supplementary to, and supporting the deliberations of, the top level Council, there has been organized a coordinating group on development finances composed of the senior technical officers of the finance and planning agencies of the Government. The work of this group has

already resulted in fixing public borrowing policies more directly related to economic indicators, improving the programming of bond fund expenditures, and planning peso expenditures in relation to reparations proceeds and foreign exchange resources. Furthermore, this professional group will keep fiscal-economic trends under sharp and continuous surveillance.

The strengthened facilities for fiscal policy and improved control techniques of the Budget Commission represent a further significant advance in our efforts to achieve better financial planning and management.

This coordination among the planning, fiscal and monetary authorities will insure efficient and forward-looking financial management in an environment of monetary stability.

The most tangible evidence of the success of this improved organization and inter-agency collaboration is the long range fiscal program embodied in this Budget Message.

A Balanced Five-Year Fiscal Plan

The urgent national development and defense needs of the country conditioned by the standards of fiscal and economic soundness as indicated above have governed the preparation of the Five-Year Fiscal Plan. The investment program and priorities embodied therein are in consonance with the 1954 economic plan adopted at the start of our Administration. The more recent recommendations of the National Economic Council for updating the economic plan, particularly the system of industrial priorities to govern the allocation of foreign exchange, the administration of the government's fiscal operations, and the extension of credit, have also served as a guide to this fiscal plan.

Our approach in formulating the long range plan has been first to make a careful appraisal of all available resources. With maximum resources known we have then proceeded to their allocation based on a scrupulous application of priority standards. Thus, the sequence of decision has run from available revenues and other resources to expenditure. This method has been necessary since our needs so clearly exceed our finances.

The Five-Year Fiscal Plan has been prepared under my direction by the Budget Commission in close collaboration with the Central Bank, the National Economic Council, the Department of Finance and other agencies and corporations of the Government. It represents the collective judgment of this Administration as to the optimum course of public action in achieving a balanced and sustained national progress. In summary form the plan is presented below:

FIVE-YEAR FISCAL PROGRAM

Consolidated Fiscal Plan for 1957–1961

By Program Emphasis and Financing Sources

(Millions of Pesos)

	FY 1956 (Actual)	FY 1957 (Est.)	FY 1958 (Est.)	FY 1959 (Proj.)	FY 1960 (Proj.)	FY 1961 (Proj.)	1957–1961 Total
Expenditure Purposes *							
1. Economic Development	₱467.0	₱506.6	₱549.7	₱576.6	₱605.9	₱617.4	₱2,856.2
2. Social Development	318.0	350.3	390.5	430.6	461.0	481.5	2,113.9
3. National Defense	166.1	163.1	176.3	176.1	182.9	185.4	883.8
4. General Government	73.1	77.0	95.1	95.6	103.1	103.0	473.8
5. Debt Service	57.8	94.4	101.6	119.5	141.6	154.0	611.1
Total Expenditure	₱1,082.0	₱1,191.4	₱1,313.2	₱1,400.4	₱1,494.5	₱1,541.3	₱6,940.8
Financing Sources *							
1. General Fund Receipts	₱642.0	₱764.5	₱799.7	₱824.9	₱881.7	₱925.6	₱4,196.4
2. Special and Fiduciary Funds	126.0	178.8	180.7	162.2	165.2	164.1	851.0
3. Public Borrowings	315.0	249.7	264.6	250.0	250.0	240.6	1,264.7
4. Reparations Proceeds			24.5	33.0	40.0	40.0	137.5
5. Required Additional Revenues							
Revised Tariff Code			30.6	35.5	40.0	50.0	155.0
Tax Amnesty and Census			15.0	18.0	21.0	25.0	79.0
Revised Tax Measures				67.3	96.6	96.6	260.5
Total	₱1,083.9	₱1,193.0	₱1,313.9	₱1,400.4	₱1,494.5	₱1,541.3	₱6,943.1

* Interfund transfers eliminated

NOTE: 1. Above table does not include:

(*a*) Transactions of government financial institutions.

(*b*) Operating income and expense of corporations.

(*c*) Loans to government corporations from commercial banks or government financial institutions.

2. See Annex A for distribution of expenditures by funds, functions and current and capital outlay.

The above fiscal programs are comprehensive in both their expenditure and financing aspects. The totality of the entire governmental establishment is embraced covering not only the usual general budget but also public works for all purposes, subscriptions to capital stock of corporations, financial investments, loans and all other proposed obligations of government. Likewise, we have considered not only the usual revenues and public borrowings but have also estimated the income from reparations and other sources which can be applied to the financing of government development projects.

The aggregate levels of expenditure incorporated in the annual fiscal plans have been fixed over the several years in consideration of the

reasonable proportion of the gross national product, as projected, which can be diverted to government outlay. This is necessary in order that the maximum amount of funds in excess of those required for normal public functions can be channeled into the economy in the form of productive investment. Including estimated costs of local government the total proportion of the national income to be absorbed by the government sector ranges from 16.1 per cent in Fiscal Year 1956 to 17.0 per cent in Fiscal Year 1961, as indicated in Annex B. This level is in no way excessive considering the strategic role of Government in the capital accumulation process for underdeveloped countries. Many other nations in a similar economic status have found it feasible as well as desirable to exceed this proportion. (See Annex C.)

This long range fiscal plan gives concrete expression to our national aspirations. Realization of the maximum benefits which its full activation will bring is, however, dependent not only on the adequacy of Executive Branch administration but equally on the understanding and active support of the Congress. I am confident that the country can count on the statesmanlike wisdom and political courage of the legislative members in endorsing this aggressive and far-reaching program and in enacting the necessary measures for its undertaking.

Basic Objectives of the Fiscal Plan

In formulating the long range fiscal plan, we have been governed by the following transcendent objectives:

1. To apply the absolute maximum of our financial resources to public investment for economic development purposes.

2. To improve our educational, health and social standards within the limits of available general revenues giving particular emphasis to those services which directly enhance the productive skills and capacities of the population.

3. To maintain the strength of our armed forces and internal security facilities in order that we may enjoy peace and order while devoting our energies to national development.

4. To finance the total government sector by a sound and judicious balance between taxation and public borrowings, restricting the use of government securities and reparations proceeds to high priority public investments.

5. To impart to the national economy an optimistic tone and buoyant trend.

6. To keep monetary expansion within bounds and to avoid any inflationary tendencies by prudent fiscal, monetary and credit policies.

7. To accelerate the process of industrialization while improving and broadening our agricultural base.

8. To give private enterprise every encouragement and opportunity to play an increasingly significant role in the development of the country.

An Expanding National Income Level

The success of the national uplift effort will in large measure be determined by our ability to achieve a sizeable increase in both national and individual income during the next five years. As we set our sights for the future, we must aim high but be realistic in our expectations. In my judgment it is imperative as well as feasible to raise our gross national product, representing the total sum of goods and services produced by the entire nation, to an amount which will create a national income growth of 30 per cent and a per capita income growth of 17 per cent (adjusted for population rise) by 1961 in comparison with the base year 1956. This is projected in the following table which is based on constant 1956 prices as estimated:

ESTIMATED PROJECTION OF NATIONAL INCOME

Calendar Year	National Income (million pesos)	Index of Growth (1956=100)	Per Capita Income (pesos)	Index of Growth Per Capita
1954 (Actual)	7,358	88.9	343	92.2
1955 (Actual)	7,804	94.3	357	96.0
1956 (Estimated base year)	8,272	100.0	372	100.0
1957 (Projected)	8,710	105.3	384	103.2
1958 (Projected)	9,174	110.9	396	106.5
1959 (Projected)	9,670	116.9	409	109.9
1960 (Projected)	10,199	123.3	423	113.7
1961 (Projected)	10,754	130.0	435	117.0

These are admittedly ambitious goals requiring the maximum output from both the public and private sectors. Assuming the maintenance of sustained growth rates and the essential stability of present price levels in the years ahead, these estimates mean that we could double our national income in about 17 years. I believe this is a realistic objective fully capable of accomplishment. At the same time we must consider such a growth rate as an incentive goal toward which the entire national community must strive. The fiscal program has been premised on our success in this effort. But it will take diligence, toil, and unrelenting effort on the part of us all to achieve our mark.

Controlled Expansion of the Nation's Money Supply

The investment programs incorporated in the annual fiscal plans will continue to induce an expansion of the nation's money supply and consequently augment aggregate purchasing power. Obviously, the production of the volume of physical goods necessary to meet this increasing demand cannot proceed at the same pace as the money supply owing to lag factors. We must, therefore, maintain some flexibility in our plans for issuing government securities and carefully regulate actual releases in order that they may be within manageable proportions and not produce disruptive monetary effects.

It is clearly impossible to predict with any certainty the future monetary situation resulting from these planned public borrowing rates. Nevertheless, our calculations indicate that the economy can absorb the contemplated infusions without causing price rises beyond what are tolerable in an expanding economy.

Our economic analysis of the situation indicates that the inflationary pressures resulting from government financial transactions will be most acute in Fiscal Years 1957 and 1958. The accumulated effects of the additions to the money supply are greatest in these years before the increased production resulting from these investments can help satisfy domestic needs. By Fiscal Year 1959 the increased productive capacity which the magnitude of capital investment, both public and private, would induce should eliminate any further threat to price stability.

That the economy can sustain the planned borrowing rates is borne out by the results of technical computations which measure primary and secondary effects of anticipated Bond Fund expenditures on the national income, with price effects being calculated by correlating increases in aggregate money income with increases in total production (both public and private). These estimates show that, with careful adherence to the conditions and standards set forth herein, we can contain price increases caused by domestic forces to within 5 per cent annually during the critical years 1957 and 1958. This will mean, however, that private credit expansion must be carefully channelled to highly productive enterprises. Furthermore, this assumes that the present price inflation abroad either will subside or its effects on the Philippine economy will be kept minimal by compensatory fiscal, monetary and credit policies. Should this external factor persist, we are prepared to take the direct measures discussed earlier, including a reduction in the public borrowing rate. I am confident this will not be necessary. We shall nevertheless remain sensitive to this and other threats and keep ourselves alert by continuous stock-taking of economic and monetary trends. (See annex D.)

Foreign Exchange Requirements Can Be Met

The Fiscal Plan necessarily takes into account the foreign exchange requirements of all programs and projects. Peso amounts are carefully coordinated with prospective dollar and reparations availabilities. Obviously, there is no point in providing pesos in the budget for major development projects requiring capital equipment from abroad unless we can pay in foreign exchange or obtain them from reparations.

Clearly then we must husband our foreign exchange receipts and seek all possible means and resources from abroad to supplement them in order to push on towards our economic goals. As described later, it will be my policy to make maximum use of reparations goods to this end. It will also be my policy to negotiate with the Export–Import Bank, the International Bank for Reconstruction and Development and other public and private sources abroad for the extension of dollar credits to help finance our industrialization effort.

We already have favorable prospects for financing some of the most urgent development projects with foreign credits. Nevertheless, there are limits to our capacity for borrowing abroad both in terms of bankable projects and repayment conditions. Therefore, in the final analysis we must rely upon our own foreign exchange receipts to finance a large share of essential capital development programs. We will not shrink from further sacrifice on imports of less essential items if this becomes necessary in order to maximize the flow of capital goods.

The net potential demand of the Government on our foreign exchange resources rises from ₱141.4 million in Fiscal Year 1957 to ₱211 million in Fiscal Year 1961, as indicated in Annex E. We find that these foreign exchange requirements of the Government's capital investment program can be met without reducing our international reserves. This can only be done, however, by careful utilization of our dollar earnings and by directing new productive activities toward the displacement of imported goods in the domestic market.